

Janus Henderson Horizon Sustainable Future Technologies Fund

Q4 2021

Marketing communication
For US Financial Professionals servicing non-US persons

Fund Managers Names

Richard Clode, CFA, Graeme Clark, Alison Porter

Macro backdrop

November's assembly of world leaders at COP26 in Glasgow was an important milestone six years on from the Paris agreement. Re-engagement from the US post-Trump, China's commitment to peak emissions and India starting its decarbonisation journey were clear positives. However, the divergent challenges of the developed and developing world became very clear during tense final negotiations, leading to an ultimate watering down of language around the phasing out of coal.

Broader environmental goals encompassing methane and deforestations, as well as intertwining that debate with the social impact of those required environmental measures, were all steps forward. But we can be in no doubt that an awful lot of work is still required to shape and deliver a more sustainable future. We continue to believe it is possible as the science of solving problems, the innovation and exponential leaps technology can provide will be critical to delivering on these pledges and achieving the goals.

Fund performance and activity

The fund returned 6.9% versus a benchmark return of 12.6%. Given the dual mandate of the fund (aiming to provide capital growth over the long term (five years or more) by investing in technology-related companies that contribute to the development of a sustainable global economy), the positive/negative screening criteria for the portfolio is constructed in a benchmark agnostic manner.

The following commentary on fund performance contributors and detractors is on an absolute return basis (rather than relative to the benchmark).

Impinj, a provider of radio-frequency identification (RFID) technology and an enabler of the circular economy, contributed positively to performance. The company delivered strong results as supply constraints eased, enabling it to fulfil more of the RFID demand inflection it has been enjoying. Calix, whose AXOS intelligent access software platform creates the lowest cost per-bit-per-mile, next-generation fibre networks enabling broadband deployments in more economically deprived areas and helping close the digital divide, contributed positively to performance following strong results. Cloudflare has the mission to help build a better internet and was another positive contributor. It currently blocks around 76 billion cyber threats a day and is committed to 100% renewable energy to power its network and remove all historical emissions from its network by 2025. Marvell, a key enabler of low-carbon infrastructure, contributed positively to performance as the company used its investor day to raise its long-term growth forecast to one of the highest in the sector, given the significant cloud and 5G silicon opportunities ahead. Microsoft, a leading provider of low-carbon infrastructure through its Azure offering and software productivity tools driving resource and productivity optimisation, performed strongly in light of strong results across the board, highlighting the strength and sustainability of growth in Azure. Qualcomm, a key enabler of smart cities, performed strongly off the back of both results and an investor day which demonstrated diversification beyond smartphones by highlighting strong connectivity franchise positions across the internet of things (IoT) and autos. Ciena, a key enabler of smart cities, performed strongly off the back of both results and new global broadband deployments supported by government subsidies to address the digital divide.

Broadcom, a leader in low-carbon infrastructure semiconductors, performed strongly off the back of both results driven by strong broadband and cloud deployments, a new buyback and a Software Investor Day that highlighted the resilience of its Symantec cybersecurity franchise. NVIDIA, a key enabler of artificial intelligence (AI), performed strongly off the back of strong results as deployments of its graphics processors in datacentres surged as companies seek greater insight, intelligence and efficiencies in their businesses. Ambarella, a leader in computer vision and automotive safety, performed strongly off the back of strong results and a significant expansion of its automotive sales funnel, notably with next-generation electric vehicle makers like Rivian and Arrival.

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On the negative side, Chegg's role in helping lower income students hurt short-term performance as many students chose not to enrol in new courses and took advantage of stronger labour market conditions. DocuSign, a leader in paperless contracts, detracted from performance as the company delivered weak results; customer buying urgency has dropped since the start of the COVID-19 pandemic and this was exacerbated by sales execution issues. Digital payments platform Paypal also detracted from performance after results were below expectations as consumer spending trends moderated and eBay's payments platform shift away from Paypal was faster than anticipated. OpenLending, a leading auto-loan enablement platform, which increases available finance for prime and sub-prime lenders, was a headwind to performance as despite executing well, the shortage of new vehicle inventories impacted the business negatively. 2U is one of the leading education technology providers enabling online learning across Universities, short-courses and boot camps. Its stock underperformed as there was some softness in the wider education market in light of generally strong labour market conditions. Lyft, a leading US ride hailing platform and part of the sustainable transport revolution, also detracted from performance as the rise of the Omicron coronavirus variant led to renewed concerns around the ride hailing recovery. In data security, endpoint protection provider CrowdStrike detracted from performance as concerns emerged in the market around the potential for pricing pressure from recent initial public offering (IPO) SentinelOne, a smaller vendor in the space. Dropbox, the leading cloud-based content management and collaboration platform detracted from performance despite solid third quarter results as the market focused on a moderation of growth and as software stocks came under pressure late in the quarter. Salesforce, whose front office platform is a key enabler of resource and productivity optimisation, contributed negatively to performance as the company's guidance fell short of expectations due to challenges in its Mulesoft business and caution over the impact of Omicron. ZoomInfo, a leading provider of sales efficiency and automation software, was caught up in the high growth software sell-off despite its continued strong results and best-in-class economic model.

In terms of activity, we initiated a position in Tenable, a data security company in the vulnerability management space which has shown strong traction with a recently released bundle around its core vulnerability management (VM) product. We initiated a position in Be Semiconductor, a market leader in back-end advanced semiconductor packaging. The challenge of sustaining the lower power curve of Moore's Law requires the use of chiplets resulting in an inflection in hybrid bonding where the company has a dominant market position. We initiated a position in Evoqua Water Tech, a leading provider of mission critical water treatment solutions offering services, systems and technology to support full water lifecycle needs with 200,000 installations worldwide and has number one market share in North America industrial water treatment. We initiated a position in Telus, a company with social capitalism at the heart of its strategy, supporting at-risk and disadvantaged groups with communication and data services as well as having leading Canadian technology health and global agri-tech businesses. We initiated a position in ZoomInfo, a leading provider of sales efficiency and automation software, used to drive material improvements in sales productivity with the added benefit of materially reducing the amount of business travel required to close new deals. We also initiated a position in Delta Electronics, a leader in power electronics, driving more efficient, lower carbon systems and infrastructure as well as being a leader in electric vehicle chargers. We also took part in the IPO of Fluence Energy as it was spun out of Siemens. The company is at the forefront of grid scale 'front-of-the-meter' battery energy storage systems with both its hardware offering and its advanced AI software FluenceIQ.

Elsewhere, a reassessment of the positive force of robotics technology led to Fanuc failing the 50% thematic revenue mapping threshold, resulting in divestment.

Outlook/strategy

Technology is the science of solving problems and the global challenges that we face require the innovation of the technology sector to provide solutions. Our eight sustainable technology themes are a positive force across both environmental and social issues. COP26 and government policy in response to the pandemic indicate a growing acceptance that we must address not just climate change but the social challenges emanating from it and the digital divide that became so apparent during the pandemic. The innovation of the technology sector combined with regulatory and government subsidy support are accelerating the adoption curve of sustainable technologies not just in clean energy and transport electrification but across low-carbon infrastructure, smart cities, tech health, data security, resource and productivity optimisation and digital democratisation.

As we look to invest in the innovation of sustainable technology we are cognisant of a major market inflection after over a decade of quantitative easing and zero interest rates after the Global Financial Crisis and, more lately, due to the pandemic. Tapering and rising inflation driving higher interest rate expectations are less supportive of higher duration stocks and unprofitable companies. Our investment philosophy is centred on navigating the hype cycle of technology and a rigorous valuation discipline focused on unexpected earnings and cash flow. This limits our exposure to those stocks more vulnerable to this market inflection but we still expect volatility given this backdrop.

By investing in a low-carbon, technology-for-good portfolio we can naturally access those markets with what we see as the most potential, and by navigating the hype cycle we can deliver our dual mandate: providing clients with positive environmental and social benefits from the development of a sustainable global economy, as well as the potential for attractive long-term capital returns.

Source: Janus Henderson Investors, as at 31 December 2021

Janus Henderson Horizon Sustainable Future Technologies Fund

Fund information

Index

MSCI AC World Information Technology Index

Objective

The Fund aims to provide capital growth over the long term (5 years or more) by investing in technology-related companies that contribute to the development of a sustainable global economy.

Due to current regulations we are only permitted to show performance if the share class is more than one year old.

Janus Henderson Horizon Sustainable Future Technologies Fund

For further information on the Luxembourg-domiciled Janus Henderson fund range please contact sales.support@janushenderson.com or visit our website: www.janushenderson.com.

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Past performance is not a guide to future performance. The value of an investment and the income from it can fall as well as rise and you may not get back the amount originally invested.

The information in this commentary does not qualify as an investment recommendation.

Important information

In accordance with the Sustainable Finance Disclosure Regulation, the Fund is classified as Article 9 and has sustainability as its objective.

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